

Program Evaluation Report

New York's Base Drinking Water State Revolving Fund
Program Activities During FFY 2014

7/27/2015

Prepared by the State Revolving Fund Program Section



Table of Contents

I Introduction	3
II Program Background	3
III Scope of Review	4
Programmatic Review Process	4
Documents Reviewed	4
Participating Regional Staff	4
State Staff Interviewed	5
IV Program Elements	6
2014 Intended Use Plan	6
Funding Sources	6
Funding Uses: Projects	7
Funding Uses: Set-Asides	8
V Programmatic Observations	9
Operating Agreement	9
Biennial Report	9
Funding Eligibility	9
Assistance Provided to Small Systems	9
Reporting	9
Staff Capacity	9
Compliance with Environmental Review Requirements	9
Compliance with Federal Cross-Cutting Authorities	10
Compliance with Disadvantaged Business Enterprise Requirements	10
Additional Subsidization Requirement	10
Davis-Bacon Requirement	10
American Iron and Steel Requirement	11
VI Sustainability and Climate Change Initiatives	12
Asset Management Plans	12
Smart Growth Reviews	12
Interconnections	12
New York State Climate Change Initiatives	12
Storm Loan Mitigation Program (SMLP)	12
VII Financial Observations	13
Binding Commitment Requirements	13
Assistance Terms	13

Fee Structure and Use	13
Assessment of Financial Capability and Loan Security	13
Cash Draws	13
Proportionality Requirement	14
State Match.....	14
Transaction Testing for Improper Payments	14
Timely and Expeditious Use of Funds and Unliquidated Obligations	15
Compliance with Independent Audit Requirements.....	15
Compliance with Single Audit Act Requirements	15
VIII Financial Performance of the DWSRF Program.....	16
Health of the Fund.....	16
DWSRF Financial Indicators	17
Pace of the DWSRF Program.....	17
Return on Federal Investment (ROFI).....	18
Disbursements as a Percentage of Assistance Provided	18
Net Return after Forgiving Principal (Excluding Subsidy)	18
Net Return on Contributed Capital.....	18
IX Set-Aside Observations	19
Set-Aside Workplans.....	19
Set-Aside Activity Reports.....	19
Set-Aside Financial Requirements	19
X Project File Review.....	20
Project Descriptions	20
Project File Observations	20
XI Required Actions	20
XII Conclusion	20



I Introduction

The Drinking Water State Revolving Fund (DWSRF) Base Program was authorized by the Safe Drinking Water Act (SDWA) of 1996 to provide capitalization grants to the States and the Commonwealth of Puerto Rico to finance the costs of infrastructure projects needed to achieve or maintain compliance with SDWA requirements. In addition to financing infrastructure projects, States are authorized to set aside a portion of their capitalization grant to fund a range of activities including program administration, source water protection and capacity development. Each State has considerable flexibility in determining the design of its program and in directing funding towards its most pressing compliance and public health needs; however, this flexibility must always be conducted within the SDWA and the framework of underlying program requirements.

The U.S. Environmental Protection Agency (EPA) Region 2 oversight of the DWSRF programs assesses each state's performance and compliance with statutes, regulations, the operating agreement (OA), and the grant conditions governing DWSRF programs. The oversight is accomplished via a continuous process of review and evaluation of key program elements. The review process includes examination of project files, program elements and transaction testing during on-site reviews conducted at state offices.

In September of FFY 2014, EPA awarded the NYSDOH \$42,455,000 in Base program funds and \$56,572,914 in Disaster Relief Appropriations of 2013 (DRAA) supplemental funds to implement resilience measures at facilities impacted by Hurricane Sandy. This report addresses the base program only.

This Program Evaluation Report (PER) summarizes the results of Region 2's review of the NYSDOH's implementation of the DWSRF base program during Federal Fiscal Year (FFY) 2014. The on-site project file review was conducted on March 9, 2014 and transaction testing, conducted on June 6 through 9, 2015.

II Program Background

The New York State Drinking Water State Revolving Fund program is jointly administered by the New York State Department of Health (NYSDOH) and the New York State Environmental Facilities Corporation (NYSEFC). The NYSDOH is the DWSRF EPA grant recipient and oversees the technical aspects of the program, while NYSEFC administers the financial operations of the program.

The DWSRF Base program requires the State to provide a 20% match of the Federal capitalization grant amount along with a one to one match of the program management set-aside. The Federal and State funds are leveraged each year, which enables the State to provide assistance to more projects. Leveraging has proved to be a powerful tool for New York, resulting in funds disbursed for project assistance totaling 337% (\$3.52 billion) of the cumulative Federal capitalization grant amounts (\$1.04 billion¹) as of June 1, 2014. This amount includes \$995 million in assistance to disadvantaged communities. New York State has a greater need for water infrastructure investment than almost every other state. In the most recent Drinking Water Needs Survey and Assessment, dated February 2011, it was estimated that \$24 billion will be needed in New York to ensure the delivery of safe drinking water through 2031. Within New York State demand for water infrastructure financing is so high that a significant disparity exists between the projects requiring funding to those actually funded.

¹ Does not include Disaster Relief Appropriation Act capitalization grant amount of \$56,572,914.

III Scope of Review

In order to accurately report on program performance familiarity should be maintained with the following reporting and documentation time periods that are referenced within the PER:

Reporting Year/Document	Start Date	End Date
Federal Fiscal Year 2014	October 1, 2013	September 30, 2014
State Fiscal Year 2013	April 1, 2013	March 30, 2014
NIMS Reporting Year 2014	July 1, 2013	June 30, 2014
Biennial Report FFY 2014-2015	October 1, 2013	September 30, 2015
Final Intended Use Plan FFY 2014	October 1, 2012	September 30, 2014

Programmatic Review Process

During the weeks preceding the on-site review, Region 2 staff reviewed supporting documentation and partially completed the programmatic and project file review checklists. During the on-site review, Region 2 staff examined two base program project files and completed the project file review checklists. Interviews were conducted with state staff and the programmatic review checklist was partially completed. After the on-site review a list of follow up items was sent to state staff and answers were sent back to Region 2 in a timely manner.

Documents Reviewed

- Intended Use Plan, FFY 2014
- Program Evaluation Report, FFY 2013
- Biennial Report, FFY 2013-2014
- Set Aside Workplan, FFY 2014
- Set Aside Workplan, FFY 2013
- Performance Status Report, FFY 2014
- DWSRF NIMS
- PBR Database Reports
- COMPASS Reports
- Independent Audit Reports
- NYS SERP Documentation
- State Project Files

Participating Regional Staff

The table below lists EPA Region 2 staff members who participated in the on-site review on March 9, 2014. On-site transaction testing was conducted by Nancy Chong of EPA Region 2 between June 6 through 9, 2015.

U.S. EPA Region 2	Title	Role in On-Site Review
Stephen Vida, P.E.	State Revolving Fund Program Section Chief	Conducted entrance/exit conference and assisted with on-site review preparation.
Daniel D'Agostino	DWSRF Coordinator	Conducted project file review, programmatic review.
Nancy Chong	Financial Analyst	Transaction testing

State Staff Interviewed

Representatives from the New York State Department of Health and the New York State Environmental Facilities Corporation were interviewed and consulted during the on-site review process. The following is a list of state staff interviewed and their titles at their respective agencies:

New York State Department of Health	Title
Michael Montysko, P.E.	Chief, Design Section

New York State Environmental Facilities Corporation	Title
David S. Bradley, P.E.	Deputy Director, Division of Engineering and Program Management
Timothy P. Burns, P.E.	Director, Division of Engineering and Program Management
Kathryn Macri	Corporate Sustainability Officer
Sandra Allen	Director, Policy and Planning
Tracey Hitchen Boyd	Deputy Director, Finance

IV Program Elements

2014 Intended Use Plan

The Intended Use Plan (IUP) is an annual utilization plan which describes goals, funding policies, and management of the DWSRF program. The IUP also describes program changes and initiatives, long and short-term goals, financial status, amendment processes, set-aside activities, the disadvantaged community program and hardship, capacity assessment, and the state environmental review process. The IUP also contains project priority lists. The final Intended Use Plan (IUP) for FFY 2014 was issued on October 1, 2013. Seven amendments were also issued, with the last of these publically released on in August of 2014. “Final Amendment #7” incorporated the Storm Mitigation Loan Program (DRAA-funded projects) and American Iron and Steel Requirement into the FFY 2014 IUP.

The project readiness list contained in the IUP list projects that may be funded within FFY 2014. The Project Annual List (formerly Readiness List) lists all projects for which the assistance recipient has submitted all required pre-construction technical documents to the NYSDOH or have completed construction by September 10, 2013. The subset of projects that are above the subsidized funding line on the Project Annual List are expected to receive funding during this IUP cycle and comprise the Funding List. Other lists in the IUP include the “Category A” list of projects serving less than 10,000 people, and a “Category C (Hardship)” list of projects serving disadvantaged communities. The “Category B” list of projects serving greater than 10,000 people was not included in this IUP as a separate list. The IUP also includes the Multi-Year list which consists of projects where listing forms were submitted and reviewed. Prior to ranking, the applicants are sorted by population size into lists as described above. This ensures that New York meets the 15% small system requirement. Within these lists, the NYSDOH awards the most points to systems that have the most significant compliance issues. If a project has an executed financing agreement and more funding is required for completion, it will receive significant bonus points. This ensures the completion of all projects. Project lists typically include a short description, project costs, description of financing, points received in ranking, and population served. New York State’s IUP scores and ranks projects consistent with its approved priority system.

Project bypass can occur in special conditions. For example, bypass can occur if a project does not progress as expected, or if an applicant does not submit a full application for a project after it has been above the subsidized funding line for two or more consecutive IUP periods. Funds made available through project bypass may be used for emergency financing to address imminent threats to public health, or to finance costs increases to projects above the subsidized funding line.

Funding Sources

The FFY 2014 capitalization grant for the DWSRF program in NYS was awarded to the NYSDOH on September 24, 2014 for \$42,455,000. A state receiving a DWSRF Base program grant is required to contribute a 20% match using state funds. Additionally, there is a required 1:1 match of the Program Management set aside. The table below lists the federal grant amounts, state match amounts (20% and 1:1 Program Management), and total 2014 funding amounts:

2014 Federal Capitalization Grant Amount	2014 20% State Match	2014 1:1 Program Management State Match	2014 Total Program Funding
\$42,455,000	\$8,491,000	\$4,245,500 ²	\$55,191,500

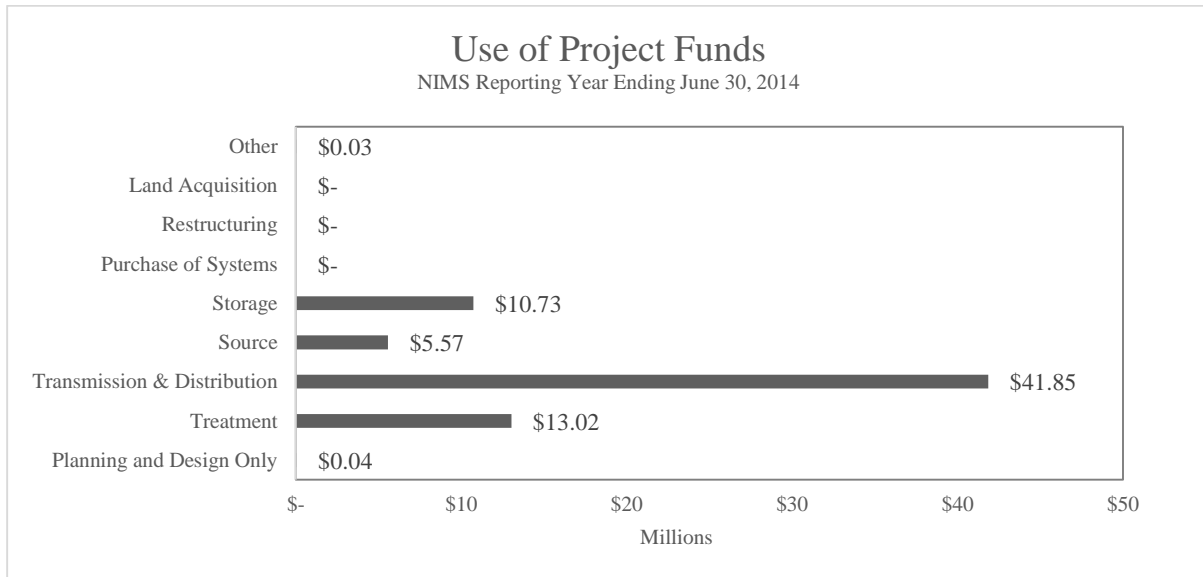
The State provided a 20% matching share of \$8,491,000 as required by the SDWA. Also provided was the 1:1 program management set aside of \$4,245,500. The FFY 2014 project fund amount totaled \$44,153,200 and set-aside funds totaled \$11,038,000. Out of a possible 31%, a total of % 16 of the 2014 capitalization grant was reserved for set-asides with the remainder being used for projects:

Funding Source	2014 Project Funds	2014 Set-Aside Funds	2014 Total Funds
Federal	\$35,662,200	\$6,792,800	\$42,455,000
State	\$8,491,000	\$4,245,500	\$12,736,500
Combined	\$44,153,200	\$11,038,000	\$55,191,500

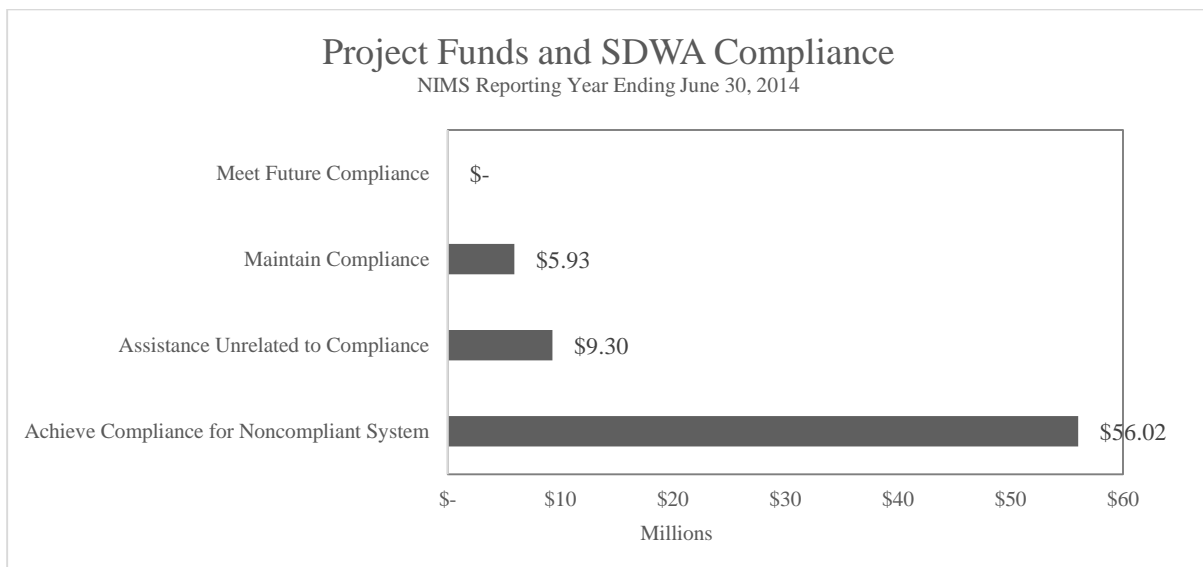
² This amount was provided as “in-kind” services.

Funding Uses: Projects

In total for NIMS reporting year 2014, a total of \$71,243,549 in DWSRF funds were directed toward project use. Funding for these projects came from a variety of sources, including repayments. There was no financing of any non-construction projects. The bar chart below shows the distribution of funds expended during NIMS reporting year 2014 across all construction categories. The chart demonstrates that most of the DWSRF funding was directed towards treatment projects. Treatment projects receive more points during the project ranking process because they restore or maintain compliance with the regulatory standards of the Safe Drinking Water Act (SDWA).



As stated previously, priority is given to projects that are not in compliance with the regulatory standards of the Safe Drinking Water Act (SDWA). Funds are expended to restore these systems to a state of compliance. The graph below shows how spending is directed to projects in need of correction to restore or achieve present compliance:



Funding Uses: Set-Asides

New York used \$6,792,800 from the 2014 capitalization grant to fund DWSRF set-asides. With the 1:1 Program Management set-aside total set-aside funding for FFY 2014 was \$11,038,300. This included Administration, Small Systems Technical Assistance, and Program Management. The following table shows this distribution of set-aside funds:

2014 Total Set-Aside Funding	Administration (4%)	Technical Assistance (2%)	Program Management (10% + 1:1 Match)
\$11,038,300	\$1,698,200	\$849,100	\$8,491,000

In relation to what set-asides are available to New York under the DWSRF program, the State is utilizing the maximum amounts in all but one category. NYSDOH took the full share of the 4% administrative funding set-aside, the 2% Small Systems Technical Assistance set-aside and the 10% program management set-aside. The state elected to not use any of the 15% set-aside for Local Assistance & Other State Programs. Overall New York used 16% of the available 31% that is allowed for set-aside use.

V Programmatic Observations

Operating Agreement

The Operating Agreement (OA) and its attachments serve as a contract between EPA and NYS for the operation of the DWSRF program. The existing OA was signed on September 30, 1997. EPA, NYSDOH and NYSEFC will continually evaluate the current OA and determine what updates are required.

Biennial Report

As per 40 CFR 35.3550(n), “Biennial Report”, a State must agree to complete and submit a Biennial Report that describes how it has met the goals and objectives of the previous two fiscal years as stated in the IUPs and capitalization grant agreement. The State must submit biennial reports to Region 2’s Regional Administrator according to the schedule established in the capitalization grant agreement. The NYSDOH submitted its 2012-2013 biennial report on January 7, 2014. The NYSDOH submitted a report covering FFYs 2006-2009 on December 26, 2014. A report covering four years was made permissible under an agreement made with EPA Headquarters on March 12, 2011. The NYSDOH is now caught up with all biennial reports which has allowed Region 2 to close out old grants and reduce internal reporting burdens. Region 2 eagerly awaits the submission of the FFY 2014-2015 report by December 31, 2015.

Funding Eligibility

Listing forms and project applications are reviewed for project eligibility before funds are awarded. Multiple layers of eligibility review are conducted by the state regarding engineering reports, plans and specifications. Assistance recipients must sign a re-certification that all costs are eligible. Invoices are reviewed to determine eligibility or project costs. The two projects that were reviewed by EPA Region 2 were eligible for funding. The \$9,554,298.53 examined under transaction testing (25 transactions) contained only eligible costs. There were no improper payments.

Assistance Provided to Small Systems

Each year the NYSDOH exceeds the minimum programmatic requirement to provide 15% of capitalization grant dollars to systems serving 10,000 or fewer customers. The NYSDOH reports this data in NIMS on an annual basis. For NIMS Reporting Year 2014, the NYSDOH directed \$65,851,758 to projects serving 10,000 or fewer customers, exceeding the 15% requirement.

Reporting

All projects financed during FFY 2014 are entered into the Project Benefits Reporting (PBR) system. Typically staff at the NYSDOH will determine each Monday if any financing agreements were signed the week prior and will enter those projects into the database. A supervisor reviews all PBR data for accuracy, errors or omissions.

Under the requirements of the Federal Funding Accountability and Transparency Act (FFATA), the NYSDOH has entered data into usaspending.gov in an amount of the last three capitalization grants. The NYSDOH has been tracking FFATA reporting through the use of the PBR system.

Appendix A contains FFATA Reporting for the FFY 2014, FFY 2013, and FFY 2012 Capitalization Grants as recorded in PBR.

Staff Capacity

Due to current state budgets, the NYSDOH is not able to hire new employees. As in the past, the NYSDOH has been able to maintain program operations through the training of existing employees. The implementation of the SMLP will increase staff workload further impacting the DWSRF program.

Compliance with Environmental Review Requirements

For FFY 2014 New York State maintained compliance with Environmental Review Requirements with a comprehensive Environmental Review process that has been periodically evaluated and approved by Region 2 NEPA staff. Projects funded under the DWSRF program in New York State are subject to the State Environmental Quality Review (SEQR) process. An action (project) is subject to review under SEQR if any state or local agency has authority to issue a discretionary permit, license or other type of approval for that action. SEQR also applies if an agency funds or directly undertakes a project, or adopts a resource management plan, rule or policy that affects the environment.

In the SEQR process, the assistance recipient may declare itself in writing as the “lead agency.” Other state or local agencies are permitted to object to the “lead agency” declaration. If there are no objections or responses within 30 days, the lead agency designation is confirmed. Under SEQR the lead agency determines whether the action is a Type I, Type II or Unlisted Action. Type II actions receive the equivalent of a “categorical exclusion.” Type I and Unlisted actions require that the lead agency complete an Environmental Assessment Form (EAF). This form assists the lead agency’s engineer to analyze and quantify all of the various impacts a project may have. If the engineer determines that there will be significant impacts, an Environmental Impact Statement will be required. If there are no significant impacts, the lead agency issues a “negative declaration”. Determinations are published online in the Environmental News Bulletin (ENB) for public comment. Various opportunities for public comments exist with the SEQR process.

Appendix B contains a New York State Environmental Quality Review (SEQR) Process Diagram.

Compliance with Federal Cross-Cutting Authorities

Compliance with Federal Cross-Cutters is closely linked with the SERP. The full EAF form includes an evaluation of the Federal Cross-Cutters which is used by the “Lead Agency” to determine applicability and compliance. Letters are collected as required from involved New York State and Federal agencies.

Compliance with Disadvantaged Business Enterprise Requirements

The administrative conditions of the award include requirements for the NYSDOH to comply with 40 CFR, section 33.301. The condition requires the NYSDOH to comply with “six good faith efforts” whenever procuring construction equipment, services and supplies under a financial assistance agreement, and to ensure that subrecipients, loan recipients and prime contractors also comply. The NYSDOH bid documents include DBE requirements. The bid documents provide DBE forms 6100-2, 3 and 4. The NYSDOH fully complies with DBE requirements. In order for payment to be made to a contractor, the assistance recipient must affirm that DBE and EEO requirements are being satisfied.

Additional Subsidization Requirement

For FFY 2014, the requirements were such that a minimum of 20% and a maximum of 30% of the capitalization grant must be used to provide additional subsidy to eligible assistance recipients. States may comply with this requirement by offering subsidy in the form of negative interest rate loans, principal forgiveness, and/or grants to assistance recipients experiencing economic hardship.

As of July 27, 2015, New York has four projects totaling \$5,074,611 in additional subsidization funds in the PBR system for the FFY 2014 capitalization grant. The NYSDOH is encouraged to keep the PBR as up to date as possible to ensure accurate reporting of program results. New York State is expected to meet this requirement for FFY 2014 as it has for FFY 2013 and FFY 2012.

Federal Fiscal Year	Federal Capitalization Grant Amount	Minimum Additional Subsidization	Maximum Additional Subsidization	NYSDOH Additional Subsidization ³	Number of Projects
2014	\$42,455,000	\$8,491,000 (20%)	\$12,736,500 (30%)	\$5,074,611 (12%)	4
2013	\$55,485,000	\$11,097,000 (20%)	\$16,645,500 (30%)	\$11,300,987 (20%)	10
2012	\$60,923,000	\$11,827,600 (20%)	\$17,741,900 (30%)	\$12,321,165 (20%)	11

Appendix C contains PBR reports for additional subsidization projects financed under the FFY 2014, FFY 2013, and FFY 2012 capitalization grants.

³ As reported in PBR as of July 27, 2015.

Davis-Bacon Requirement

The NYSDOH reviews bid documents and project financing agreements for compliance with EPA Davis-Bacon language and wage rates. Project financing agreements are only signed if they contain a statement requiring Davis-Bacon compliance. Before the State disburses funds for incurred costs, assistance recipients must sign and attest a certificate of compliance with Davis-Bacon wage rate requirements. This includes the requirement that wage rate interviews are being conducted.

American Iron and Steel Requirement

The American Iron and Steel Requirement was incorporated into the IUP through the issuance of “Final Amendment # 7 to the Drinking Water State Revolving Fund Federal Fiscal Year 2014 Intended Use Plan, Storm Mitigation Loan Program & American Iron and Steel Requirement” on August 1, 2014. This amendment required the use of American Iron and Steel products in the following situations:

- *for the construction, alteration, maintenance, or repair of a treatment works, and*
- *that execute a financial assistance agreement with EFC between January 17 and September 30, 2014, inclusive, for assistance through the DWSRF, and*
- *did not have the project plans and specifications submitted for review by a state agency on or before January 17, 2014 and approved by a NYS agency before April 15, 2014.*

VI Sustainability and Climate Change Initiatives

Asset Management Plans

New York State maintains a commitment to the incorporation of sustainable infrastructure practices in both state revolving fund programs. The NYSDOH and NYSEFC encourage assistance recipients to submit Asset Management Plans along with engineering reports and plans and specifications. Assistance recipients that submit Asset Management Plans receive an additional five points on the project priority list. The NYSDOH may require applicants with systems that fail to meet technical, financial and managerial capacity requirements to submit asset management plans. Additionally, should a project be completed under budget, the NYSDOH encourages the remaining funds be used toward the development of an asset management plan.

Smart Growth Reviews

New York State Smart Growth Public Infrastructure Financing Act, two smart growth reviews are conducted by both the NYSDOH and NYSEFC. As part of these smart growth reviews, projects are evaluated to determine if green infrastructure and energy efficiency alternatives were considered or could be incorporated. The NYSDOH requires that assistance recipients identify in engineering reports, all energy efficiency, water efficiency, and environmentally innovative components. The NYSEFC is working with the New York State Energy Research and Development Authority (NYSERDA) to support energy and commodity recovery projects at wastewater and drinking water infrastructure projects.

Interconnections

For systems that fail to meet technical, financial, and managerial capacity requirements, the NYSDOH is promoting interconnections and regionalization. For projects seeking assistance, if the potential for interconnections or regionalization exists whereby it would address the scope of the project within the framework of the priority ranking system, the engineering report must contain a detailed evaluation of that option and should include detailed justification if it is not pursued.

New York State Climate Change Initiatives

State executive order No. 24 set a goal to reduce New York State's greenhouse gas emissions to 80% of 1990 levels by 2050. This executive order also created the New York Climate Action Council (CAC). The CAC with assistance from NYSERDA and the NYSDEC issued the New York State Climate Action Plan Interim Report issued November 9, 2010. This report outlines climate change and adaptation practices that need to be incorporated in all sectors to reach the 2050 50% reduction goal. New York State Public Health law is now requiring that all projects consider the best available current climate data before implementation.

The New York State Climate Action Plan Interim Report is available at <http://www.dec.ny.gov/energy/80930.html>.

Storm Loan Mitigation Program (SMLP)

Hurricane Sandy and the accompanying Disaster Relief Appropriations Act (DRAA) of 2012, necessitated the implementation of New York State's Storm Mitigation Loan Program (SMLP). New York State's implementation of the SMLP is based on the EPA memo titled "Award of Capitalization Grants with Funds Appropriated by P.L. 113-2, 'The Disaster Relief Appropriations Act, 2013'", issued on May 1, 2013.

The NYSDOH included in the 2014 IUP Attachment X, which outlines the SMLP, project eligibility, and includes an open letter to public water systems explaining the requirements and scope of the program. Additionally, this attachment includes a listing form and general information for applicants.

The issuance of "Final Amendment # 7 to the Drinking Water State Revolving Fund Federal Fiscal Year 2014 Intended Use Plan, Storm Mitigation Loan Program & American Iron and Steel Requirement" on August 1, 2014 included a list of the SMLP projects to be funded.

VII Financial Observations

Binding Commitment Requirements

New York State maintains binding commitments in excess in order to ensure an adequate pipeline of projects into the program. Cumulative binding commitments are greater than cumulative grant payments and state match. Projects that receive loan agreements typically start construction within a year.

Assistance Terms

DWSRF assistance is designed to be flexible and maximize assistance provided while preserving the financial viability of the program. Terms of assistance are in compliance with SRF program requirements. For projects receiving long-term financing, subsidized interest and extended term financing are available for projects above the subsidized financing line on the IUP. Projects below the subsidized financing line receive bond market rate financing. For projects receiving short-term financing (3 years or time to readiness to receive long-term financing) projects above the subsidized financing line receive interest-free financing. Projects below the subsidized funding line receive market-rate financing. Principal repayments start within a year of project completion and proceed according to the amortization schedules in the project financing agreements. Federal funds are repaid within 20 years. As of May 2014, extended term financing (up to 30 years) is available to New York's DWSRF projects. New York's DWSRF program is the first one in the nation to be approved to offer this financing option. The NYSDOH publishes in its IUP a Financing Options matrix which systematically describes all financing options.

Appendix D contains the New York State DWSRF Program Financing Options Matrix.

Fee Structure and Use

New York State has established a fee structure to cover costs associated with program administration, bond issuance and transactions, council costs, financial advisory fees, printing costs, rating agency and trustee fees. Fees are waived for certain types of subsidized financing. For NIMS reporting year 2014, the DWSRF collected \$368,564 from fees included in loans and \$1,354,440 from fees not included in loans. The DWSRF earned \$3,229 in interest from fee accounts.

Appendix E contains a tabulation of the New York State DWSRF Program fee structure.

Assessment of Financial Capability and Loan Security

Each assistance recipient must complete a questionnaire documenting financial circumstances as part of the financial capability evaluation process. Additionally, the State Controller's office compiles and publishes financial health and credit data for all municipalities in New York State. The NYEFC also accesses public domain financial information and compiles a report. A financial analyst examines this all sources of data and follow up information is obtained from the assistance recipient. All data sources are used by the NYSEFC to evaluate terms of assistance for each assistance recipient.

All assistance recipients have their taxing authority and credit evaluated by NYSEFC, thereby assuring a dedicated source of revenue for repayment. Assistance recipients always have access to additional funding in the form of "phased points" for projects that are still incomplete.

New York State has procedures in place for assessing the technical, financial and managerial (TFM) capacity of their assistance recipients. The NYSDOH both collects TFM capacity evaluation forms and conducts outreach programs including the Operator Certification Program to ensure technical and managerial capacity.

Cash Draws

NYS correctly adheres to the "Rules of Cash Draw." NYSEFC maintains control of the cash draw process and reviews and collects all invoices. The state corrects all improper payments that are detected. A detailed review of statistically sampled disbursements has confirmed the State's use of federal funds for eligible project and administrative purposes.

Proportionality Requirement

The state meets proportionality requirements. The state has deposited into the DWSRF program funds made available through the State Environmental Bond Act to meet present and future state match requirements. New York State disburses State funds in an amount greater than 20% of the Capitalization prior to requesting outlays from the U.S. Treasury. New York funds all program disbursements with recycled funds first, and then batches these disbursements and makes cash draws only a few times per year at the correct ratio of 80.77% Federal and 19.23% State.

State Match

The state is required to contribute a match equal to 20% of the grant amount. Additionally, the state is required to provide a 1:1 match for program management set-aside funds. For the 2014 DWSRF grant of \$42,455,000, NYSDOH contributed \$8,491,000 or 20% for the grant match requirement. NYSDOH provided \$4,245,500 as a 1:1 match to the DWSRF grant for program management. The source of this funding is New York State's Environmental Bond Act. This state match structure was approved by headquarters at the time the Operating Agreement was signed.

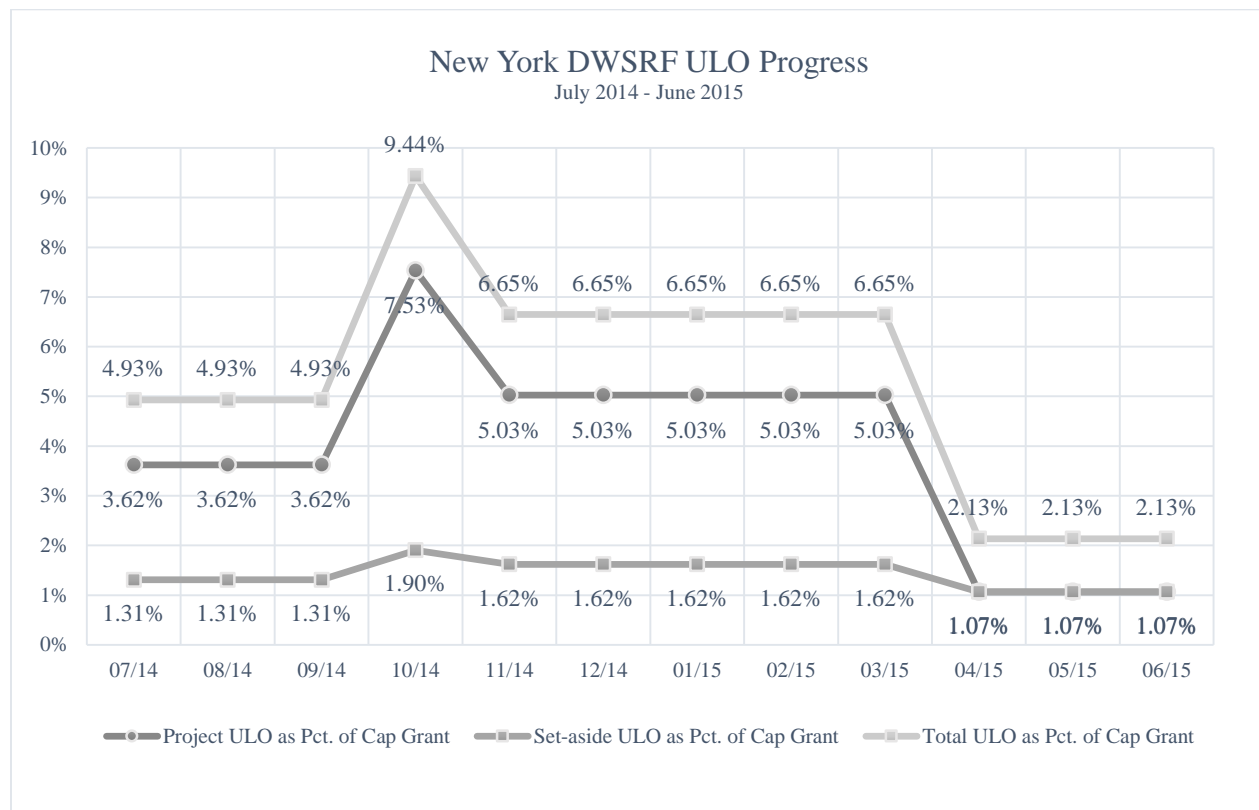
Transaction Testing for Improper Payments

Transaction testing was conducted by EPA Region 2's financial analyst at the NYSEFC office from July 6 through July 9, 2015. In keeping with normal operations, New York State disburses its funds to assistance recipients and subsequently reimburses itself via outlays. 25 cash transactions were reviewed with an invoiced total of \$9,554,298.53. Of this amount \$4,983,399.99 were administrative cash transactions and \$4,570,898.54 were project cash transactions. Transaction testing determined that New York State reviews invoices and approves disbursements in a proper manner. New York State used the correct proportionality ratio to calculate drawdown for both project and administrative disbursements. None of the reviewed cash transactions were identified as improper and all disbursements were for eligible costs.

Appendix F contains the New York State DWSRF Program FY 2014 Transaction Testing Summary Table.

Timely and Expeditious Use of Funds and Unliquidated Obligations

New York State uses funds in a timely and expeditious manner. The overall DWSRF fund currently has unliquidated obligations (ULOs) of \$11,158,254 (2.13% of total awarded funds) as of the issuance of this report. The graph below shows ULO progress for the DWSRF program for NIMS Reporting Year 2014:



Compliance with Independent Audit Requirements

Annual audits are carried out each year by KPMG, which examine CWSRF and DWSRF program finances in great detail. Audited basic financial statements and the A-133 audit for the year ending March 31, 2014 were issued on June 25, 2015. No deficiencies were found. The DWSRF program's financial operations conform to Generally Accepted Accounting Procedures (GAAP).

Compliance with Single Audit Act Requirements

As required under Single Audit Act regulations, assistance recipients that expend \$500,000 or more of Federal funds in a fiscal year are required to submit Single Audit Act Audit Reports. New York State reviews these reports. Single Audit Act audits can be found at the following URL: <http://harvester.census.gov/sac/>.

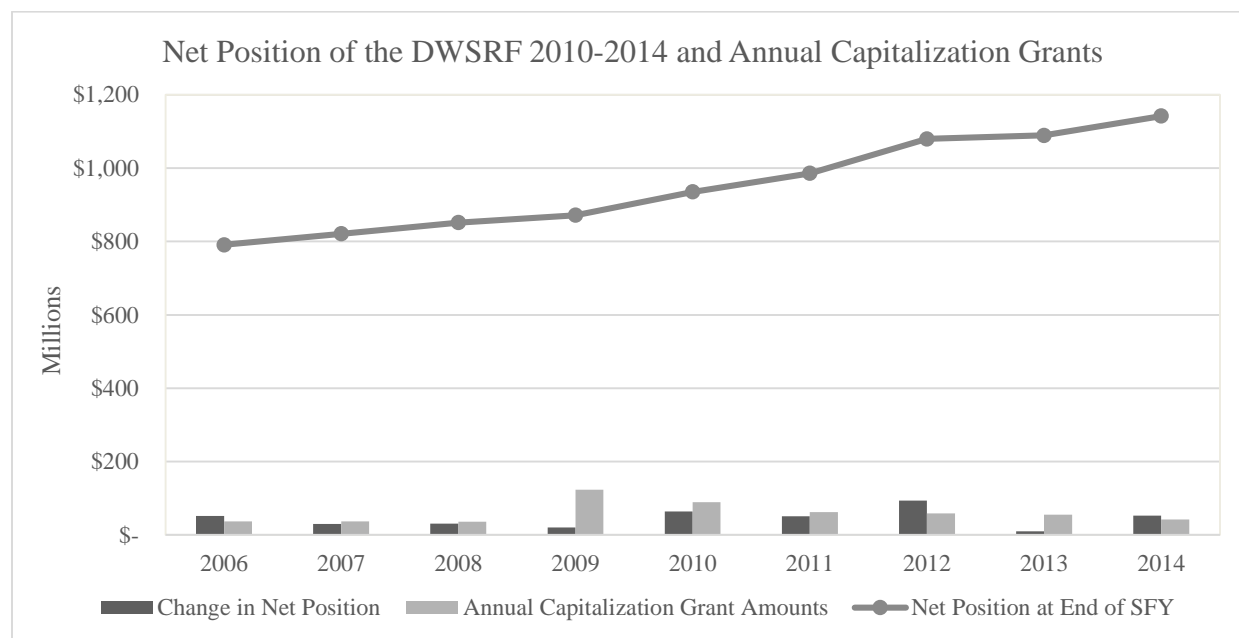
VIII Financial Performance of the DWSRF Program

Health of the Fund

A healthy, financial viable DWSRF program can provide a high volume of financial assistance during each fiscal year while maintaining the ability to fund projects in perpetuity. The available audited financial statements show that the NYSDOH and the NYSEFC are effective managing partners of the DWSRF and are working to establish a program that is sustainable and effective. As of the time of this report, New York has no defaults and all borrowing entities have been evaluated for their financial solvency in accepting DWSRF financing.

As of June 1, 2015, New York's DWSRF program has executed a cumulative \$3,488,932,477 in assistance to finance drinking water projects. NYSDOH maintains adequate controls over the loan execution and collections process. The program's total assets (current and noncurrent) at the beginning of SFY 2014 were equal to \$2,145,743,071. Total assets decreased 1% to \$2,127,141,925 by the end of SFY 2014.

New York's DWSRF fund has exhibited steady growth over the past years. Net position at the end of SFY 2014 was \$1.14 billion. This is 4.8% greater than net position at the beginning of SFY 2014, \$1,089,547,764. The chart below shows net position over time as a line graph and the annual capitalization grant amounts and change in net assets as column graphs:



A large percentage of the growth New York attained in the years above was due to the capitalization grants and annual state match contributions. In most cases, the change in net position has been less than the amount of the annual capitalization grant. This indicates that the program disburses a sizable amount of assistance each year.

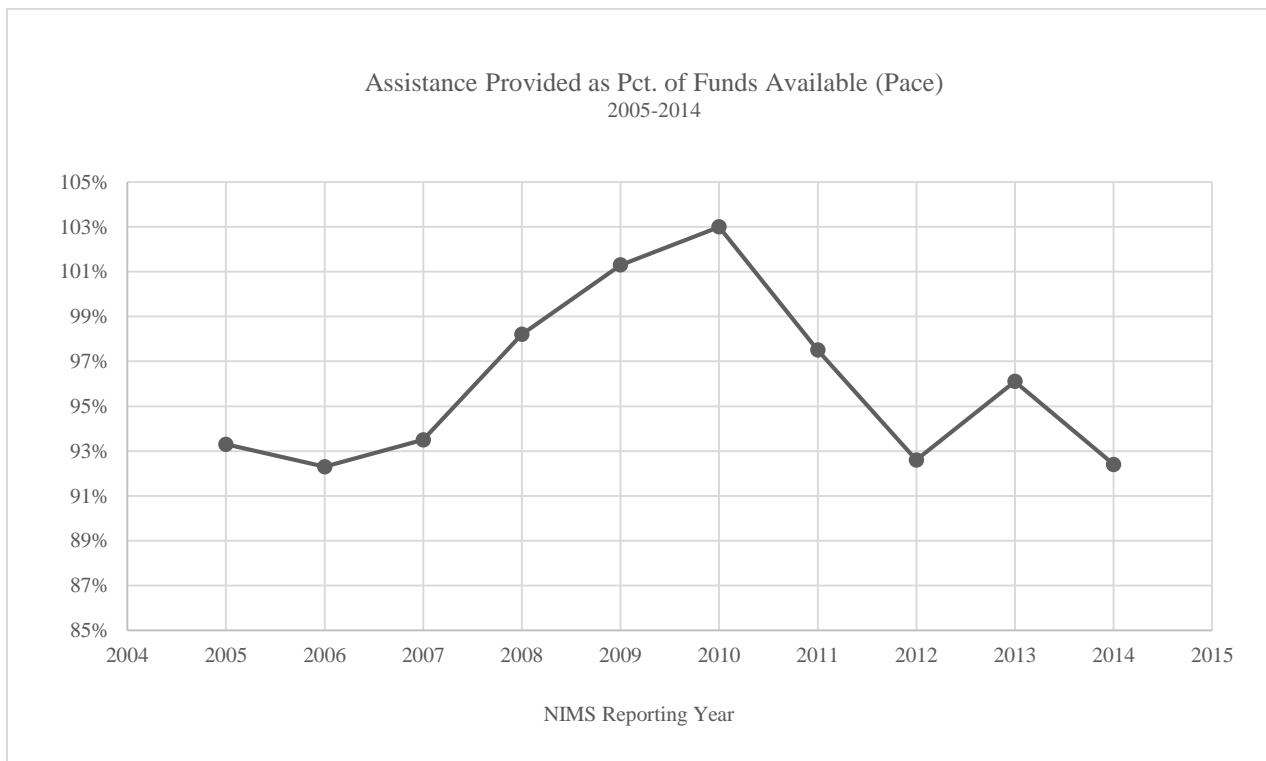
DWSRF Financial Indicators

Financial indicators serve to gage the effectiveness of NYSDOH and NYSEFC's management of the DWSRF program. The following table shows selected financial indicators for New York State's DWSRF program for NIMS reporting years 2012-2014. It also shows how these numbers compare with 2014 National NIMS data:

New York State DWSRF Program Financial Indicators NIMS Reporting Year 2014				
Financial Indicator	2012	2013	2014	2014 National Average
Program Pace (Assistance as a % of Available Funds)	92.6%	96.1%	94.5%	92.4%
Return on Federal Investment	421.2%	412.8%	415.0%	176.0%
Disbursements as a % of Assistance	97.0%	98.2%	100.0%	85.5%
Net Return after Forgiving Principal (Excluding Subsidy)	\$198,147,530	\$239,274,688	\$244,869,581	\$1,606,012,946
Net Return on Contributed Capital (Excluding Subsidy)	27.4%	29.9%	30.2%	11.7%

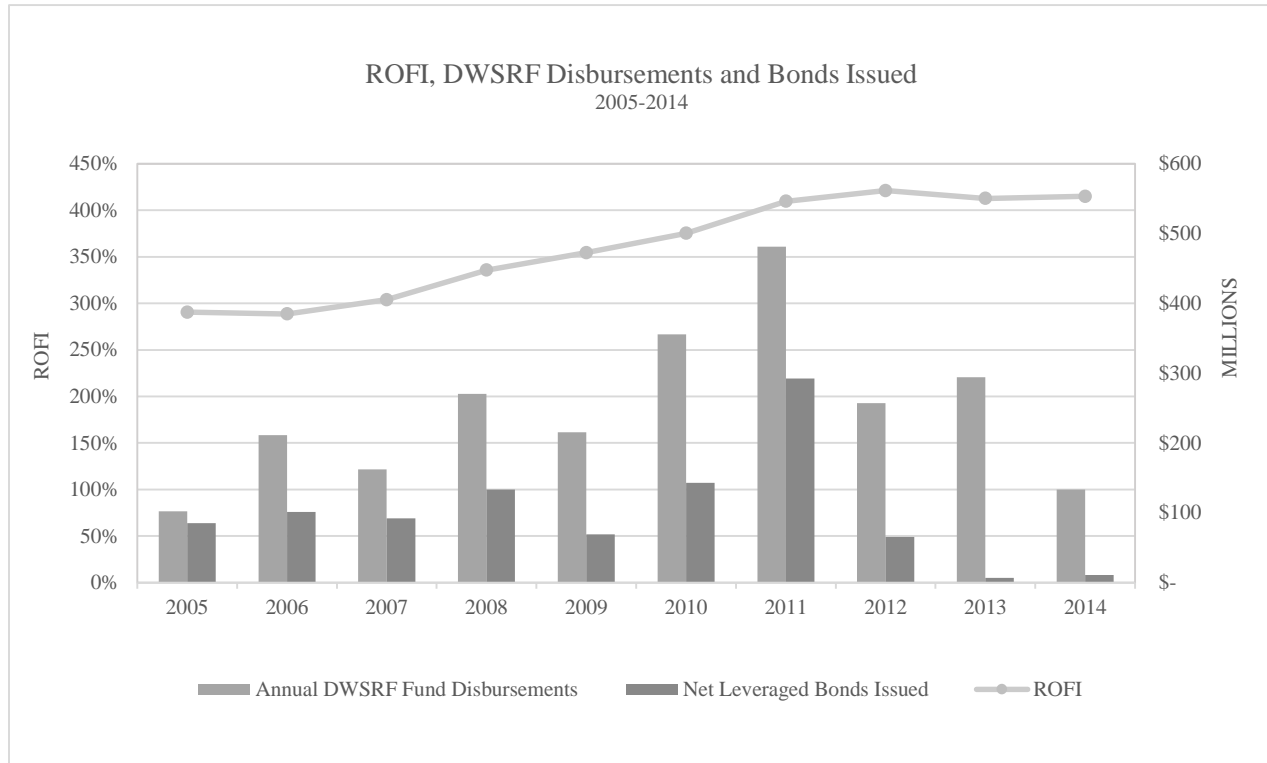
Pace of the DWSRF Program

Pace decreased from 2013 by 2.4% to 94.5%. At 94.5% New York has a pace that is ahead of the national average of 92.4%.



Return on Federal Investment (ROFI)

ROFI is the amount of assistance the state has provided for each federal dollar of capitalization grant received by the state. New York State has an aggressive leveraging program which allows them to provide a greater amount of assistance per dollar of Federal Capitalization Grant. New York's 2014 ROFI was 415.0%, substantially above the national average of 176.0%:



Disbursements as a Percentage of Assistance Provided

This indicator describes how quickly funds are disbursed for executed loan agreements and is equal to cumulative loan disbursements divided by cumulative assistance provided. The state, at 100.0% is well above the 2014 national average for the states (85.5%). New York State is making a very successful concerted effort to spend down funds and reduce ULOs.

Net Return after Forgiving Principal (Excluding Subsidy)

This indicator represents how well the DWSRF is maintaining invested or contributed capital. It is equal to the DWSRF program's net earnings after loan principal has been forgiven. If this number is positive it means the DWSRF is accumulating funds. For the last three years, net return has remained high showing that the fund is maintaining invested capital effectively.

Net Return on Contributed Capital

This indicator more fully describes the concept of "Net Return" as it shows the percentage of contributed capital that returns to the DWSRF funds. For 2014, New York had a net return on contributed capital of 30.2%, which greatly exceeds the national average for all states (11.7%).

IX Set-Aside Observations

Set-Aside Workplans

The NYSDOH submits a workplan every year outlining its ongoing set-aside activities, the amounts reserved to fund them and the goals of the set-aside programs. Set aside activities must be coordinated with the overall goals of the State's public drinking water program. NYSDOH routinely creates workplans of high-quality. These workplans are submitted on-time and contain all the necessary elements. Workplan goals are coordinated with the State's public drinking water program. No changes in the activities performed have occurred thereby making amendments unnecessary.

Set-Aside Activity Reports

The NYSDOH documents its activities in set-aside activity reports, titled "Performance Status Reports". These correspond to the set-aside workplans that are submitted each year. The Performance Status Reports indicate that the NYSDOH is accomplishing the goals outlined in the Set-aside workplans. One exception is the Comprehensive Performance Evaluation (CPE) program. No CPEs were conducted due to travel budget restrictions.

Set-Aside Financial Requirements

Along with the application, the NYSDOH submits detailed budget tables which include backup documents that itemize set-aside budget items. New York State maintains separate accounts for set aside funds. These accounts are subject to the same level of oversight as the larger DWSRF fund. During transaction testing, one administrative disbursement was determined to be in full compliance with eligibility requirements. Set-aside equipment and salaries are proportionately funded. The 1:1 state match for the PWSS program is made each year and is funded through in-kind services.

X Project File Review

As per the final FFY 2014 SRF Procedures and Attachments, the Regions are required to conduct one onsite review during each FFY. During these reviews, two Base program project files are reviewed. The following table contains project information for the two projects that were examined during this onsite review:

Project Name	Project Number	Agreement Executed	Total SRF Assistance	Additional Subsidization	GPR Amount
Deferiet (V)	17562	4/10/2014	\$3,378,000	\$2,000,000	\$0
Fort Plain (V)	17469	9/25/2014	\$1,519,954	\$1,306,500	\$0

NYSDOH has exhibited good file management and organization. Electronic copies of various project file documents were forwarded to Region 2 staff for review prior to the site visit. Region 2 acknowledges the work and effort expended on the part of NYSDOH to present their project files in a way that is conducive to a smooth project file review process. The following is a summary of findings:

Project Descriptions

Both projects were eligible for DWSRF funding. The project descriptions below are based on those in the Project Benefits Reporting System (PBR):

Deferiet (V): This project involves system wide upgrades for both the Villages of Herrings and Deferiet, which will join to create one water system. The upgrades include replacement of existing storage tanks, distribution system upgrades (including meters), source control upgrades and the extension of water service to existing residential customers on contaminated private wells.

Fort Plain (T): The project includes installation of a new granular activated carbon (GAC) system and a new dilution well to reduce elevated disinfection by-products (DBPs) and comply with the Surface Water Treatment Rule. The project also includes a new storage tank to replace an existing tank that is well beyond its useful life, upgrades to an existing booster pump station, and new water meters to replace existing aged meters.

Project File Observations

There were no inspection reports on file for Deferiet. Single Audit Act audit reports were on file for the Village of Fort Plain, but not the Village of Deferiet.

XI Required Actions

- Continue funding Additional Subsidization projects until each year's Additional Subsidization requirement is met.
- Collect all materials associated with project inspections and document these in the project files.
- Collect Single Audit Act audit reports and document these in the project files.

XII Conclusion

NYS is committed to ensuring the financial stability of the Base DWSRF program. Program personnel, from both the NYSDOH and the NYSEFC, are focused on protecting public health by implementing the DWSRF program in an effective manner. Based on the documents that were reviewed, the New York State DWSRF program is in sound health, well managed, and responsive to new initiatives. EPA Region 2 appreciates the cooperation between NYSDOH, NYSEFC and EPA and New York State's efforts in running an effective DWSRF program.